MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

DMG5028 – MANAGEMENT ACCOUNTING 2

(All sections / Groups)

14 MARCH 2019
9.00 a.m. to 12.00 p.m.
(3 Hours)

INSTRUCTION TO STUDENTS

1. This question paper consists of **5** pages with 5 questions.
2. Answer **ALL** questions.
3. Write your answers in the answer booklet provided.

QUESTION 1

Part A

Meerul Manufacturing produces a variety of skin products for teenagers. The company has always manufactured all the containers for its hydrating serum. At the production level of 240,000 units per year, the cost per unit for one container is as follows:

Direct materials	RM864,000
Direct labour	360,000
Variable overhead	480,000
Fixed overhead	696,000
Total cost	**RM2,400,000**
Cost per unit	**RM10**

An outside supplier has offered to sell a similar type of container to Meerul Manufacturing for a cost of RM8.50 per unit. If the company decides to buy from this supplier, it still has to absorb two-third of its fixed overhead.

Instructions

(a) Prepare the incremental analysis to help Meerul Manufacturing make a decision. Should the company make or buy the container? Why? (8 marks)

(b) Suppose that if the container is purchased, Meerul Manufacturing could use the freed capacity to launch a new product, earning RM120,000 per year. Would the company's decision change? Why? (3.5 marks)

(c) State one qualitative factor that should be considered in a make-or-buy decision. (1 mark)

Part B

HC Glass & Aluminium has a factory machine with a book value of RM65,000 and a remaining useful life of 4 years. A new machine is available at a cost of RM280,000. This machine will have a 4-year useful life with no salvage value. The new machine will lower annual variable manufacturing costs from RM300,000 to RM250,000. The existing machine can be sold now for RM42,000.

Instructions

(a) Using incremental analysis, determine if the company should purchase the new machine. Why? (6 marks)

(b) Should the book value of existing machine be included in the incremental analysis? Why? (1.5 marks)

[TOTAL 20 MARKS]

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QUESTION 2

Part A

Variable-cost pricing uses all variable costs as the cost base and provides for fixed costs and target ROI through the markup. Some managers prefer variable-cost pricing to avoid blurring the effects of cost behavior on net income.

Instruction
State two specific reasons for using variable-cost pricing. (2 marks)

Part B

BG Apparels has designed a new type of sleeping bag targeting backpackers and campers. The following information is available about the new product.

Number of units to be produced and sold	7,500 units
Estimated investment required by the company	RM1,200,000
Desired return on investment (ROI)	25%
Direct material cost	RM20
Direct labour cost	60% of direct material cost
Variable manufacturing overhead	RM8 per unit
Variable selling and administrative expenses	RM5 per unit
Fixed manufacturing overhead	RM75,000
Fixed selling and administrative expenses	RM52,500

Instructions

(a) Compute each of the following under the full-cost approach:
  (i) Markup percentage needed to provide the desired ROI. (8.5 marks)
  (ii) Target price of the sleeping bag. (2 marks)

(b) Assume that BG Apparels wishes to increase its return on investment (ROI) to 30%, compute each of the following under the absorption-cost approach:
  (i) Markup percentage needed to provide the new desired ROI. (5.5 marks)
  (ii) Target price of the sleeping bag. (2 marks)

[TOTAL 20 MARKS]

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QUESTION 3

Part A

Lotus Manufacturing has two operating departments, Production and Packaging; and two support departments, Accounts and Maintenance. The following data are available for April 2019.

	Support Departments		Operating Departments	
	Accounts	Maintenance	Production	Packaging
Departmental costs before allocation	RM65,000	RM100,000	RM430,000	RM275,000
Number of employees	-	5	20	15
Maintenance hours	15	-	80	45

The company uses number of employees to allocate Accounts costs and maintenance hours to allocate Maintenance costs.

Instructions

(a) Using the step-down method, allocate the support department costs to the operating departments. Allocate Accounts Department costs first. (6.5 marks)

(b) If the company had used the direct method instead, calculate the Maintenance costs allocated to Production and Packaging. (2 marks)

Part B

Rainbow Manufacturing produces different types of skin products and perfumes. A combination of vegetable oils can be processed into a hand cream, Beauty; and a body lotion, Passion. In one production cycle, 200 liters of Beauty and 800 liters of Passion are produced out of 1,200 liters of oils at the cost of RM5,200.

Beauty can be sold at split-off point for RM18 per liter, and Passion for RM10 per liter. The company has the option of processing Beauty further into Beauty Core for RM700; and Passion into Passion Delite for RM400 *(without gain or loss in volume)*. Both products can be sold for RM25 and RM13 per liter respectively.

Instructions

(a) Allocate the joint costs between both products using:
   (i) physical measure method (3.5 marks)
   (ii) net realisable value method (5.5 marks)

(b) Calculate the production cost per liter for Beauty Core under the net realisable value method. (2.5 marks)

[TOTAL 20 MARKS]

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QUESTION 4

Danfeng Sdn. Bhd. manufactures and sells one type of unique souvenir. Budgeted sales in units and its selling price for 2019 are as follows.

Quarter	Sales unit	Selling price
Quarter 1	900	RM40
Quarter 2	1,200	Expected to increase 10%
Quarter 3	1,500	Expected to increase 5%
Quarter 4	2,000	Same as Q3

Danfeng sells to its 30% customers in cash term, and the remainder on account. Credit sales are expected to be collected 75% in the quarter the sales are made and the remainder in the following quarter. On 31 December 2018, the company's Statement of Financial Position showed a balance of RM33,000 in accounts receivable, all of which will be collected in the first quarter of Year 2019. Bad debts can be ignored.

Danfeng desires an ending finished goods inventory at the end of each quarter equal to 25% of next quarter's anticipated sales.

0.4 kg of raw materials are required to complete one unit of finished goods. The company requires ending raw materials inventory at the end of each quarter equal to 10% of the following quarter's production needs. Each kg of raw material costs RM25.

Instruction

Prepare the following budgets and schedule by quarters for the six-month period ended 30 June 2019:

(a) Sales budget (4 marks)

(b) Schedule of expected cash collections (3 marks)

(c) Production budget (4.5 marks)

(d) Direct materials budget (8.5 marks)

[TOTAL 20 MARKS]

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QUESTION 5

Part A

Agilent Manufacturing makes seat cushions for the automative industry. The company's activity-based costing system has four activity cost pools as listed below.

Activity Cost Pools	Cost Drivers	Expected Use of Cost Drivers	Estimated Overhead (RM)
Labour support	Direct labour hours	10,000	50,000
Batch processing	Number of batches	6,200	310,000
Order processing	Number of orders	2,500	130,000
Customer service	Number of customers	500	214,000

The company just completed an order of 1,000 seat cushions for a customer. The order was produced in four batches with the following total cost and usage of cost drivers: 250 direct labour hours, direct materials cost of RM8,500 and direct labour costs of RM6,000.

Instructions

(a) Compute the overhead rates using the activity-based approach. (6 marks)

(b) Compute the manufacturing cost for each unit of seat cushion. (4 marks)

Part B

Setia Aluminium uses a standard cost accounting system. The company's accountant provided the following information for 2019.

Standard Data	
• Materials	4kg @ RM20 per kg
• Labour	5 hours @ RM12 per hour
• Budgeted production	9,000 units

Actual Data	
• Materials purchased	37,500kg for RM806,250
• Materials used	35,800kg
• Labour worked	47,100 hours costing RM527,520
• Production	9,300 units

Instructions

(a) Calculate the material price variance. (2.5 marks)

(b) Calculate the material quantity variance. (2.5 marks)

(c) Calculate the labour price variance. (2.5 marks)

(d) Calculate the labour quantity variance. (2.5 marks)

[TOTAL 20 MARKS]

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